

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1
EXECUTIVE SUMMARY	1
PA RESPONSE	2
FINDINGS	
Personnel – Health Care Fund	2
Personnel – Unemployment Fund	3
Telephone Costs Included in Central Services do not Apply to the PA	3
Fringe Benefits Included in Central Services and also Billed Directly	3-4
Information Systems Costs are Unallowable	4
Indirect Cost Plan	4
Accumulated Leave Payoffs	4-5
RECOMMENDATIONS	5
SCHEDULE A	6

INTRODUCTION

Berrien County Prosecuting Attorney (PA) had a contract with the Michigan Family Independence Agency (FIA) to establish paternity and to obtain support orders for all cases where the Berrien County PA had jurisdiction. The Berrien County PA billed the FIA monthly under the actual cost reimbursement billing method. The FIA reimbursed Berrien County PA for their costs based on the Federal IV-D Program regulations.

SCOPE

We performed an audit of the costs submitted for reimbursement by the Berrien County PA for the period January 1 through December 31, 1998. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We performed the audit tests that we determined were necessary to determine if costs charged were proper, accurate, documented, and charged in accordance with the terms of the contract.

EXECUTIVE SUMMARY

We found that the Berrien County PA overbilled FIA for some line items. The State share of the amount overbilled is \$19,424. (See Schedule A.)

Our report recommends the Family Independence Services Administration initiate the process to recoup \$19,424 from the Berrien County PA. Our report also recommends that the Family Independence Services Administration review the 1998 Berrien County indirect cost plan (used to bill 2000) because certain cost allocations will result in the overbilling of central service costs.

PA RESPONSE

The Berrien County PA disagrees with Finding #1 because Berrien County had already significantly reduced the fund balance before our report was issued and they believe the remaining reserve is a reasonable minimum. They disagree with Finding #2 because they believe the adjustment should not be more than the amount billed to the FIA in 1998. They disagree with Finding #3 because they say the costs are for telephone administration, which does apply to the PA. They disagree with Finding #5 because they say the costs are administrative costs incurred to supervise all PA programs including the CRP program. The Berrien County PA agreed with the remainder of the findings.

FINDINGS

Personnel – Health Care Fund

1. The Berrien County PA overbilled FIA \$2,415 for health care costs. The health care costs were accounted for in the Health Care Term Claim Liabilities Self Insurance fund, an internal service fund. Attachment B, paragraph 25.d of OMB Circular A-87 (A-87) defines the allowable reserves for a self-insurance fund. Berrien County supplied reserve information for the fund that met the A-87 requirements. Taking into account: 1) that information, 2) the fact that Berrien County had reduced the reserve levels in a period subsequent to our audit period, 3) a non-operating transfer out of the fund was part of that reduction, 4) and investment income was not credited to the reserves we determined that the level of reserves exceeded the amount allowable under A-87. We calculated the excess reserves using the U.S. Department of Health and Human Services Implementation Guide for A-87 (ASMB C-10) “Reconciliation of Retained Earnings” schedule. As of December 31, 1998 the excess reserves were \$402,477. The overbilled amount identified above is the PA share of the amount of excess reserves. (See Schedule A.)

Personnel – Unemployment Fund

2. The Berrien County PA overbilled the FIA \$2,443 for unemployment costs. The unemployment costs were accounted for in the Unemployment Compensation Reserve Self Insurance fund, an internal service fund. Attachment B, paragraph 25.d of A-87 defines the allowable reserves for a self-insurance fund. Berrien County did not supply reserve information for the fund that met the A-87 requirements. Therefore the reserve levels are limited to sixty days working capital by Attachment C, Section G, 2 of A-87. As of December 31, 1998 sixty days working capital would have equaled \$4,213. The retained earnings balance in the fund at December 31, 1998 was \$298,192. The overbilled amount identified above is the PA share of the amount in excess of sixty days of working capital. In addition the A-87 Attachment B, Section 25 restrictions and requirements related to reserves and the crediting of investment income to reserves were not met. (See Schedule A.)

Telephone Costs Included in Central Services do not Apply to the PA

3. The Berrien County PA overbilled the FIA \$273 for telephone costs. Telephone Department equipment usage telephone costs were allocated in the indirect cost plan to the PA and were billed to the FIA as part of central services. The PA, however, pays a vendor for all of its telephone service (billed as part of other direct to the FIA) and therefore should not be allocated any of these equipment usage telephone costs in the indirect cost plan. (See Schedule A.)

Fringe Benefits Included in Central Services and also Billed Directly

4. The Berrien County PA overbilled the FIA \$2,552 for duplicate fringe benefit costs. The personnel costs billed directly to the FIA included a percentage of each dollar of payroll to cover the cost of pension administration and retirees health care. Those same costs were allocated in the indirect cost plan and billed to the FIA as part of central services.

The costs included in central services are a duplication of the costs directly billed and are therefore, disallowed. (See Schedule A.)

Information Systems Costs are Unallowable

5. The Berrien County PA overbilled FIA \$18,829 for information systems costs billed as part of central services. The Prosecuting Attorney Department reallocated some of its costs from the indirect cost plan to the PA. The reallocated costs were information systems costs. Information systems costs are unallowable pursuant to Agreement Admin. 88-041 between the FIA (Michigan Department of Social Services) (Office of Child Support-CSES) and the Prosecuting Attorneys Association of Michigan. (See Schedule A.)

Indirect Cost Plan

6. The Berrien County 1998 indirect cost plan (used to bill 2000) contains cost allocations that will result in the overbilling of Central Services costs in 2000. The questioned cost allocations include:

There are \$4,057 (plus the effect on the roll-forward) of fringe benefit costs included in the indirect cost plan. These fringe benefit costs are a duplication of costs billed directly to the FIA. See finding #6 above. There are \$390 (plus the effect on the roll-forward) of Telephone Department telephone costs included in the indirect cost plan. These telephone costs are unallowable because the PA pays a vendor for its telephone service. See finding #5 above. The Prosecuting Attorney Department reallocated \$15,968 (plus the effect on the roll-forward) of its costs from the indirect cost plan to the PA. The PA had already been allocated these costs in the initial allocation and therefore should not be reallocated the same costs.

Accumulated Leave Payoffs

7. Berrien County charges accumulated leave payoffs to the last department in which an employee worked. Any accumulated leave charged to the PA under this method would be an unallowable expense in accordance with A-87 Attachment B, Section 11.d (3).

WE RECOMMEND the Family Independence Services Administration initiate the process to recoup \$19,424 from the Berrien County PA.

WE ALSO RECOMMEND that the Family Independence Services Administration review the 1998 Berrien County indirect cost plan (used to bill 2000) because certain cost allocations will result in the overbilling of central service costs.

Finding #	Line Item	Year		(Over)/Under Billed Gross Amount	IV-D %	(Over)/Under Billed IV-D Amount	Due (State) County
1	Personnel	1996		(2,415)	100.00%	\$ (2,415)	
2	Personnel	1996		(2,443)	100.00%	\$ (2,443)	
3	Central Services	1996		(273)	100.00%	\$ (273)	
4	Central Services	1996		(2,552)	100.00%	\$ (2,552)	
5	Central Services	1996		(18,929)	100.00%	\$ (18,929)	
Grand Total of the IV-D Audit Adjustments						\$ (26,612)	
Calculation of the Payment Due the (State) County							
					Paternity	Total	
					Testing		
Audited IV-D Amount				249,453	4,017	253,469	
IV-D Amount Used for the Payments Actually Made				(276,064)	(4,017)	(280,081)	
IV-D Audit Adjustment Due (State) County				(26,612)	-	(26,612)	
State Share %				72.99%	100.00%		
				(19,424)	\$ -		(19,424)